QUARTERLY RETIREMENT REVIEW

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S.L. Reed & Company

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IN THIS ISSUE

THE STOCK MARKET RECOVERY CONTINUES

Having just suffered one of the worst stock market declines in history, the question many plan participants are asking is: "Will the stock market returns improve, moving forward?"

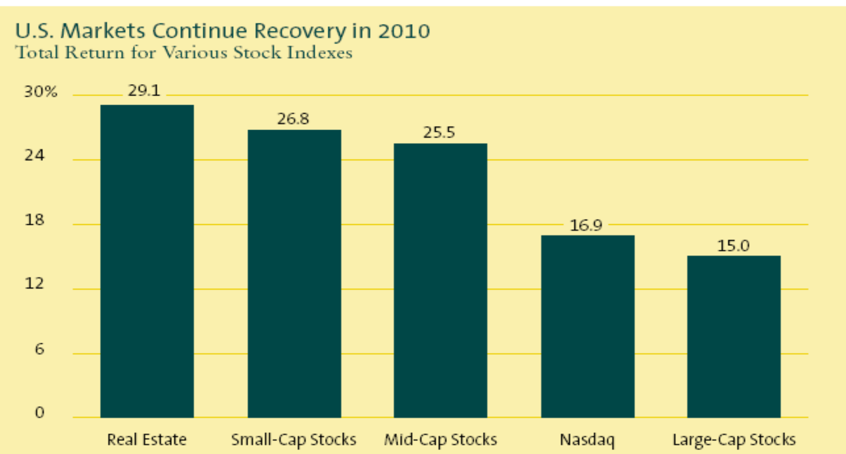
We think the answer to this question is likely to be, yes. Stocks should perform much better in the next decade, although we do not expect the returns from bonds to repeat the last decade's outperformance. Bonds will be facing a headwind as interest rates begin to move higher over the next few years, and the Federal Reserve begins to deleverage its balance sheet.

It is reasonable to expect that stocks will advance at the same pace as economic growth, say 2% to 4%, plus a long-term inflation rate of 1% to 3% and, perhaps, some additional gains from dividends and operating efficiencies will be added to the total return. Putting the numbers together, equity returns over the next 10 years could well average 7%-11%.

Just a few years ago, most stock market analysts' reports were predicting that corporate profit margins, free cash flows and earnings would take many years to recover. Now, two years after suffering one of the worst recessions in history, corporate growth has come roaring back.

The Chart below will give you some idea of the remarkable recovery of various stock indexes for the year just past:

The stock market may continue to surprise us because the economic underpinnings are improving day by day. Nevertheless, the events occurring in the Middle East and Japan have the ability to slow the market's recovery. The wild card in today's market is that with economic growth at only 2%, should inflation pick up strongly, there's not much of a cushion for economic



Returns are based on performance of the S&P 500, Russell 2000, Russell Midcap, Nasdaq Composite, and Wilshire Real Estate Securities Indexes. The Wilshire index consists of publicly traded real estate investment trusts and real estate operating companies. The Nasdaq Composite is composed mostly of technology companies.

ARE YOU SAVING ENOUGH?

According to an Employee Benefit Research Institute report, 27% of U.S. workers said they're "not at all confident" about their ability to afford a comfortable retirement; up from 22% last year. The increase was strongly driven by those plan participants with less than $100,000 in retirement savings. The percentage of those plan participants, with less than $25,000 in savings who have lost their confidence in having enough to retire on time, however, was actually 43%.

That's the highest loss of confidence percentage in two decades. In our opinion, however, plan participants who are not well prepared are finally starting to get the point and understand the consequences of not saving for retirement. The bad news is that even though they understand the difficulty this lack of savings presents for their retirement expectations, they don't seem to be reacting to the need to save yet. Hopefully, they will begin to generate more savings, now that the economy seems to be recovering.

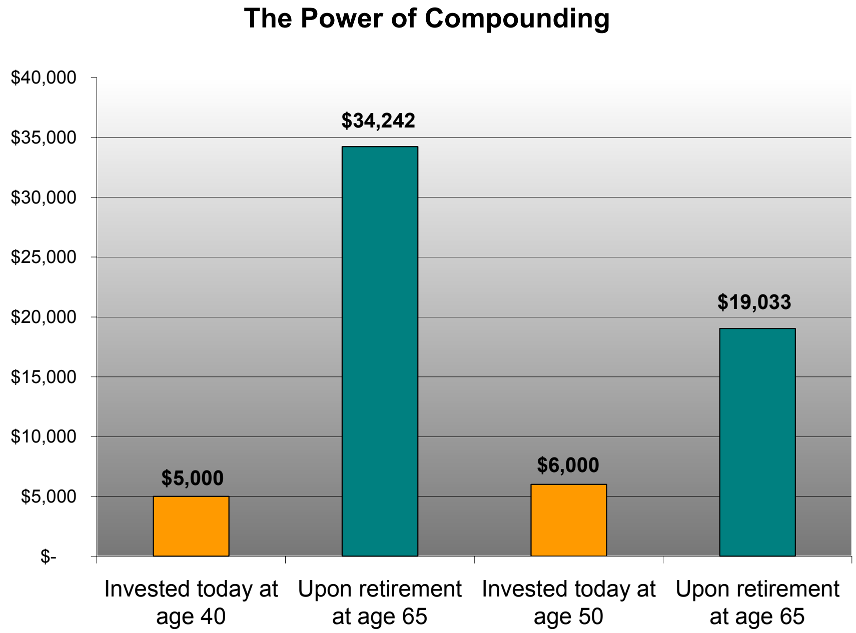
Results Summary

Cumulative savings at retirement	$1,000,000
Amount you want to spend annually in retirement	$4,167 monthly ($50,000 per year)
After tax rate of return in retirement	6.00%
Total investment earnings	$1,343,496
Total withdrawals	$2,343,496

Year	Starting Balance	Withdrawals	Investment Earnings	Ending Balance
1	$ 1,000,000.00	$ 50,706.54	$ 56,374.42	$ 1,007,667.88
2	$ 1,007,667.88	$ 52,278.44	$ 58,784.07	$ 1,014,173.50
3	$ 1,014,173.50	$ 53,899.08	$ 59,122.45	$ 1,019,396.88
4	$ 1,019,396.88	$ 55,569.95	$ 59,382.32	$ 1,023,209.25
5	$ 1,023,209.25	$ 57,292.62	$ 59,555.82	$ 1,025,472.46
6	$ 1,025,472.46	$ 59,068.69	$ 59,634.69	$ 1,026,038.46
7	$ 1,026,038.46	$ 60,899.82	$ 59,609.93	$ 1,024,748.57
8	$ 1,024,748.57	$ 62,787.71	$ 59,472.00	$ 1,021,432.86
9	$ 1,021,432.86	$ 64,734.13	$ 59,210.68	$ 1,015,909.41
10	$ 1,015,909.41	$ 66,740.89	$ 58,814.94	$ 1,007,983.47
11	$ 1,007,983.47	$ 68,809.85	$ 58,273.05	$ 997,446.66
12	$ 997,446.66	$ 70,942.96	$ 57,572.46	$ 984,076.16
13	$ 984,076.16	$ 73,142.19	$ 56,699.73	$ 967,633.70
14	$ 967,633.70	$ 75,409.60	$ 55,640.46	$ 947,864.56
15	$ 947,864.56	$ 77,747.30	$ 54,379.39	$ 924,496.65
16	$ 924,496.65	$ 80,157.46	$ 52,900.06	$ 897,239.25
17	$ 897,239.25	$ 82,642.35	$ 51,184.94	$ 865,781.84
18	$ 865,781.84	$ 85,204.26	$ 49,215.37	$ 829,792.95
19	$ 829,792.95	$ 87,845.59	$ 46,971.36	$ 788,918.72
20	$ 788,918.72	$ 90,568.80	$ 44,431.59	$ 742,781.51
21	$ 742,781.51	$ 93,376.44	$ 41,573.36	$ 690,978.44
22	$ 690,978.44	$ 96,271.11	$ 38,372.38	$ 633,079.71
23	$ 633,079.71	$ 99,255.51	$ 34,802.76	$ 568,626.96
24	$ 568,626.96	$ 102,332.43	$ 30,836.97	$ 497,131.50
25	$ 497,131.50	$ 105,504.74	$ 26,445.54	$ 418,072.30
26	$ 418,072.30	$ 108,775.38	$ 21,597.13	$ 330,894.05
27	$ 330,894.05	$ 112,147.42	$ 16,258.35	$ 235,004.98
28	$ 235,004.98	$ 115,623.99	$ 10,393.54	$ 129,774.53
29	$ 129,774.53	$ 119,208.33	$ 3,964.79	$ 14,530.99
30	$ 14,530.99	$ 14,552.56	$ 21.57	$ -

This assumes that you have a starting retirement balance of $1,000,000 and earn a 6.00% annual rate of return. Your withdrawals were increased at an annual rate of inflation of 3.10%. Withdrawals were assumed to be made monthly, at the beginning of each month.

HOW MUCH WILL YOU NEED IN YOUR RETIREMENT ACCOUNT TO RETIRE?



Source: T. Rowe Price

About 39% of plan participants think they'll need at least $500,000 by the time they retire, in order to live comfortably, while 31% think they can get by with less than $250,000.

More than half, or 56%, of workers surveyed, however, had less than $25,000 in savings and investments, excluding their primary residence and any company retirement plan.

The chart to the left will give you some idea of the importance of saving early in your career.

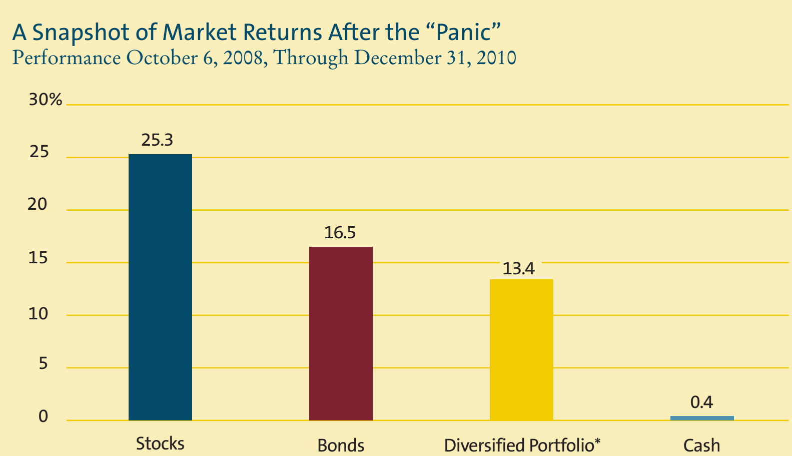
CONTROLLING EMOTIONS DURING MARKET DOWNTURNS

We recall that several years ago, just about the time the global stock markets were in a "free fall," a well-known TV stock commentator began sounding an alarm, warning viewers to take all of their money out of the stock market that they might need within the next five years. That sentiment was shared by many other stock market pundits as well.

Of course, it has not yet been five years since the market decline began, but we were interested in how this advice played out since that day when commentators issued their warnings on October 6, 2008 through 2010.

Short-term Treasury bills, a risk-free investment in terms of principal value, had a total return of only 0.4%.

Even though U.S. stocks continued falling sharply for six months after the commentators' advice to sell, stocks have returned 25.5% since then. See the chart below:



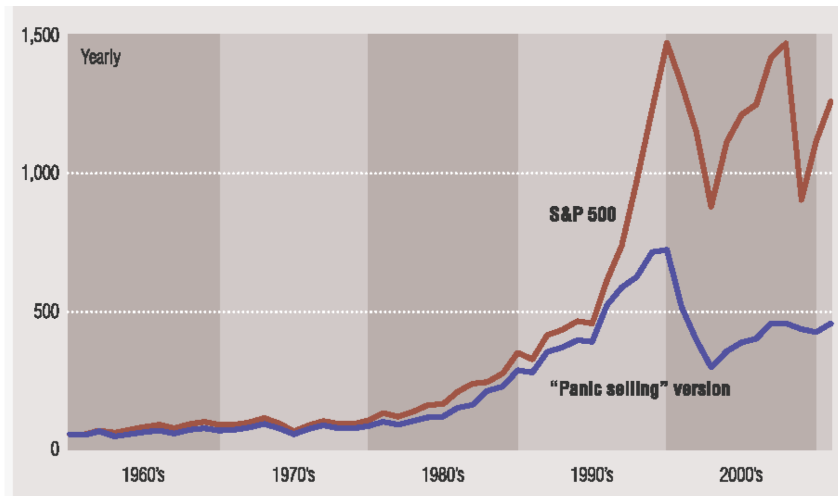
*The diversified portfolio is composed of 20% stocks, as represented by the S&P 500 Index; 50% bonds, as represented by the Barclays Capital U.S. Aggregate Index; and 30% cash, as represented by the Barclays Capital 1–3 Month T-Bill Index. It is not possible to invest directly in an index. *Past performance cannot guarantee future results.*

Source: T. Rowe Price.

The point is not that investors shouldn't have an allocation to cash for emergencies or to anchor a diversified portfolio, it's that making knee-jerk investment decisions in the midst of a market crisis can backfire and undermine a sound long-term investment strategy.

Yes, the year 2008 was a scary time for many plan participants and, as a result, the temptation to take action, particularly by fleeing stocks entirely, might have seemed compelling.

The chart below, however, demonstrates the historical results of "panic selling."



Source: T. Rowe Price

Acting on a single assumption and making predictions based on its continuation is not usually an appropriate approach to investing, for a number of reasons:

1. Prognosticator's views are often biased by recent events. After a big move down in the stock market, pronouncements to "sell" often make good sense to panicked investors. It's easy to "join the selling herd" and to look back and find all sorts of advance warnings of the crises that we feel we should have seen. We tend to forget that the future is uncertain.
2. Changing your asset allocation in response to market events actually requires two decisions and two actions: what to sell and what to buy.

In this case, it only took just a little more than two years for the performance differential of stocks over cash to total almost 25 percentage points.

While it is possible that investors who made a sudden shift in asset allocation could have been lucky enough to have made a good timing move, the consequences for being wrong would have been huge. We believe the best course is for investors to use the time horizons of their goals as a guide to their asset allocation strategy.

THE COST OF PROCRASTINATION

You may give up thousands of future dollars for every year you delay contributing to a tax-deferred retirement plan. Here's why…every year that you wait you are paying more in income taxes. And, every dollar lost to taxes is a dollar that cannot be used to help increase your future financial security.

Even more importantly, every year that you delay establishing a retirement plan represents a lost annual contribution, and every year of delay costs you a year's worth of tax-deferred growth. The combination of lost contributions and lost tax-deferred earnings can be enormous.

A Case In Point

Suppose the following facts are true.	
Your present age	43
Assumed annual contribution	$15,000
Annual return	9.00%
Your retirement age	65
Number of years for payout	20
Years you delay your plan	2

RESULTS	WITH A DELAY	WITHOUT A DELAY	THE COST OF DELAY
TOTAL PLAN CONTRIBUTIONS	$300,000	$330,000	$30,000
EARNINGS ON PLAN ASSETS	$536,468	$697,979	$161,511
ACCUMULATION IN 22 YEARS	$836,468	$1,027,979	$191,511
ANNUAL RETIREMENT INCOME	$91,632	$112,611	$20,979
TOTAL 20-YEAR PAYOUT	$1,832,642	$2,252,230	$419,587

This is a hypothetical example for illustrative purposes only and does not represent the return of any specific product.

NOTES

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